

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND)	
ELECTRIC COMPANY FOR APPROVAL OF AN)	
AMENDED COMPLIANCE PLAN FOR PURPOSES)	CASE NO.
OF RECOVERING THE COSTS OF NEW AND)	2000-386
ADDITIONAL POLLUTION CONTROL FACILITIES)	
AND TO AMEND ITS ENVIRONMENTAL COST)	
RECOVERY SURCHARGE TARIFF)	

O R D E R

On May 14, 2001, the Commission issued an Order granting rehearing of its decision to exclude Louisville Gas and Electric Company's ("LG&E") accounts receivable financing from its environmental surcharge capital structure. Both LG&E and the Kentucky Industrial Utility Customers, Inc. ("KIUC") requested rehearing on this issue. The May 14, 2001 Order included a data request to both LG&E and KIUC, seeking additional information on the issue. Responses were filed on June 15, 2001, and this case stands submitted for a decision.

In its April 18, 2001 Order, the Commission found it reasonable to reflect the cost savings resulting from the accounts receivable financing when calculating the cost of LG&E's long-term debt. The outstanding balance of the accounts receivable financing and the corresponding interest expense would be included in the determination of the cost of long-term debt. However, the outstanding balance of the accounts receivable

financing was not included as part of the balance of long-term debt nor would it be recognized in the capital structure.¹

In its application for rehearing, KIUC argued that it appeared to be the intent of the Commission to pass through to ratepayers the benefits of the low cost accounts receivable financing. However, KIUC contended that the only way to accomplish that intent was to reflect the accounts receivable financing in LG&E's environmental surcharge capital structure. In its petition for reconsideration, LG&E agreed with KIUC, and argued that the Commission's approach as described in the April 18, 2001 Order was in error.

In its response to the rehearing data request, KIUC argues that the recognition of the accounts receivable financing in the environmental surcharge capital structure is the approach that provides the appropriate level of benefits to ratepayers. KIUC contends that the approach adopted in the April 18, 2001 Order could harm ratepayers due to the level of common equity versus debt financing existing in the capital structure.² In its responses, LG&E provided a copy of a decision from the Wisconsin Public Service Commission that adopted the inclusion of accounts receivable financing in the capital structure of Wisconsin Power and Light Company.³ Both LG&E and KIUC provided calculations of weighted cost of capital that demonstrate that the inclusion of the

¹ April 18, 2001 Order at 25.

² KIUC's Response to the May 14, 2001 Order, Appendix A, Item 3(a).

³ LG&E's Response to the May 14, 2001 Order, Appendix A, Item 2.

accounts receivable financing as a separate component of the capital structure resulted in lower rates of return on capital.⁴

After consideration of the responses and arguments of KIUC and LG&E, the Commission finds that it is reasonable to include LG&E's accounts receivable financing in the environmental surcharge capital structure as a separate component and reflected as such when calculating the weighted cost of capital. However, as the accounts receivable financing program was not in operation at December 31, 2000, this financing cannot be reflected in the rate of return authorized in the Commission's May 14, 2001 Order. It should be reflected as part of the determination of the overall rate of return in subsequent 6-month reviews of LG&E's environmental surcharge.

The Commission also finds that the accounts receivable financing should be reflected in LG&E's capital structure utilized in future Earnings Sharing Mechanism ("ESM") reviews. This approach is consistent with the treatment of LG&E's notes payable to associated companies that reflect financing using the money pool arrangement with LG&E's parent holding company. The Commission is aware of no reason why the accounts receivable financing should be treated differently in the ESM than it will be for the environmental surcharge. This position is consistent with the decision in Case No. 98-426 that the ESM may be subsequently modified as appropriate to reflect Commission decisions in future cases.⁵

⁴ Id., Item 3(b) and KIUC's Response to the May 14, 2001 Order, Appendix A, Item 3(b).

⁵ Case No. 98-426, Application of Louisville Gas and Electric Company for Approval of an Alternative Method of Regulation of Its Rates and Service, rehearing Order dated June 1, 2000, at 13-14.

IT IS THEREFORE ORDERED that:

1. LG&E's accounts receivable financing shall be recognized as a separate component of its capital structure in calculating the overall rate of return for the environmental surcharge and the ESM.

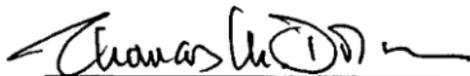
2. Ordering Paragraph No. 7 of the Commission's April 18, 2001 Order is modified to the extent that the cost of the accounts receivable financing shall also be reviewed and reestablished during subsequent 6-month surcharge reviews of LG&E's 2001 Plan Rate Base.

3. All other provisions of the Commission's April 18, 2001 Order, as modified by the May 14, 2001 Order, shall remain in full force and effect.

Done at Frankfort, Kentucky, this 30th day of August, 2001.

By the Commission

ATTEST:


Executive Director